AIR POUCH | CONFIDENTIAL | DO NOT TYPE IN THIS SPACE

PRIORITY

(Security Classification)

FOREIGN SERVICE DESPATCH

773.5-MSP/2-2355

XE-773.1

FROM : American Embassy, Tripoli — 226 DESP. NO.

TO : THE DEPARTMENT OF STATE, WASHINGTON.

February 23, 1955

REF : Embtel 351, February 13, 1955

DEPARTMENT OF STATE A/CDC/HR
REVIEWED BY J.M.Raz DATE May 6, 1982

	ACTION	DEPT.
For Dept. Use Only	NEA	INFO OCB-2 ARA E-4 S/MSA
	REC'D 3/2	OTHER CIA-5 FIA-10 OSD-4

ADDRESSEE(S) DATE
TS AUTH. CLASS(ES)
DECLASSIFY
RELEASE
PA or FOI EXEMPTION

SUBJECT: Implementation of U. S. Economic Aid to Libya

(1)

SUMMARY

On February 12, 1955 the first meeting of the Libyan-American Reconstruction Commission (ex-Joint Economic Commission) produced a new name, a draft bill of establishment, and draft rules of procedure. Working committees were set up for preliminary consideration of possible development projects.

No difficulties were encountered in concerting American and Libyan views of the aims, powers, and methods of procedure of the Commission. The Commission will investigate and allocate funds to approved development projects which will then be carried out by Libyan governmental departments or agencies under conditions set by the Commission and under its supervision.

The draft rules of procedure provide an opportunity for the discussion of disputed decisions at the diplomatic level, if persuasion by the American members in the Commission fails to be effective.

* * * * *

The machinery and methods for expenditure of the special and economic assistance funds contributed by the United States Government to the Government of Libya in accordance with the exchange of letters of September 9, 1954, are rapidly being worked out. The Government of Libya (GOL) has so far proved itself extremely amenable, except in one instance (see Embtel 349, February 13, 1955), to suggestions made by U. S. representatives as to the manner in which the funds should be handled.

On February 12, 1955, the first meeting of the Libyan-American Reconstruction Commission was held. The Commission, which consist of four Libyan and two American members, will supervise the expenditure of the U. S. economic aid funds. A Libyan enabling law to give the Commission a legal personality was presented for consideration (Enclosure No. 1) and after minor alterations was approved. The name decided upon for the Commission was changed from the designation previously used (Joint Libyan-American Economic Commission) because of GOL objections, not clearly explained, to the word "economic" and the feeling of the Commission members that "joint" in conjunction with "Libyan-American" was unnecessary.

FKLundy/lva
REPORTER

CONFIDENTIAL

ACTION COPY — DEPARTMENT OF STATE

The action office must return this permanent record copy to DC/R office with an endorsement of action taken.

773.5-MSP/2-2355

CONFIDENTIAL FILE

LWC

CONFIDENTIAL
(Classification)

DECLASSIFIED

The provisions of the enabling law are in the main self-explanatory. Those which require comment are: 1. Article 2(1): The reference to contributions to be made by the GOL is face-saving. No agreement between the governments presently exists for GOL to contribute funds directly to the Commission, although it may very well finance part of a project to which the Commission allocates funds. 2. Article 3(1)(b)(c)(d): In the interests of strengthening Libyan governmental departments and agencies, it was proposed by the American members of the Commission and approved by GOL that the Commission not be an operating agency but should have all projects carried out, on terms and conditions to be set by the Commission, by Libyan governmental services. 3. Article 4(1): The Board of Direction consists at present of the GOL Minister of Finance, Dr. Ali ANEIZI: the Nazir of Agriculture of Tripolitania, Mohamed Bey DERNA; the Nazir of Public Works of Tripolitania, Fouad KAABAZI; the Nazir of Agriculture of Cyrenaica, Omar YAGOUBI; the Acting Country Director of USOM/L; and the senior economic officer of the American Embassy. When queried in a preliminary meeting on February 10, about the provincial composition of the Libyan delegation, Dr. Aneizi and his adviser, Mr. PITT HARDACRE, stated that these men had been selected because GOL wanted to put on the Commission only the most capable men available and besides they all spoke English. Actually, Mohamed Bey Derna speaks no English and understands very little of it. It is probable that these men were selected partly for political reasons and possibly because they could be more easily controlled by the Minister of Finance. Dr. Aneizi, with the advice and assistance of Mr. Pitt Hardacre, ran the show from the Libyan side in the first meeting of the Commission. The other Libyan members had very little to say, except on the matter of how the title of the Commission would sound in Arabic. 4. Article 4(2): GOL did not wish to specify that the Executive Director should be American, again for face-saving reasons, but it was understood that he should be American and his recruitment was left to the American members of the Commission. It was also understood that the Deputy Director should be Libyan, but he may not be appointed for some time, since GOL has no suitable candidate available. 5. Article 4(4): GOL was adamant on the question of the maximum salary that could be paid to the Executive Director, even though the principle was established that the Commission's administrative expenses, including salaries of the executive staff, could be paid from Commission funds. Since the Commission is a Libyan agency, established under Libyan law, the maximum is L£2400 ($6720) per annum, subject to 8 percent income tax (the Director's outside income, if any, will not be subject to Libyan income tax). GOL guarantees also suitable housing for the Director at a rental of 6 percent of his salary. Any rental in excess of that amount which must be paid to obtain suitable housing will be paid by GOL. Other conditions of employment will be those contained in the standard Libyan contract with foreign nationals (Enclosure No. 2). It is believed that the contribution to the Provident Fund, referred to in the contract, can be suspended. 6. Article 5: The year referred to is the Commission's fiscal year, April 1 through March 31, the same as GOL's fiscal year.

The enabling law was approved by the Commission, has been approved by the Council of Ministers, and has gone to the King for approval before submission to Parliament. The date of promulgation of the law will be the date of signature by the King, after Parliamentary approval, not the date of publication. The text of a GOL memorandum which will accompany the submission of the enabling

DECLASSIFIED

legislation to the Libyan Parliament has just been received and is transmitted as Enclosure No. 3.

The American members of the Commission then submitted a draft of certain rules of procedure spelling out in further detail the method of operation of the Commission. No major exceptions were taken by the Libyan members to the contents of this draft but it was proposed by the American members and approved by the Commission that formal adoption of the rules should await further study and some redrafting. Certain points covered in the rules were also covered in the enabling law and might be eliminated. Dr. Aneizi remarked that he did not believe that major changes would be necessary. The American redraft is submitted as Enclosure No. 4. The principal means of exerting American influence in the decisions of the Commission, if persuasion fails, lie in the quorum and voting provisions of the rules of procedure. A quorum requires the presence of at least one American member, and voting on Commission decisions may be delayed for one week at the request of any member. This would give the Ambassador time to take up a disputed decision with the Prime Minister. The provisions for fiscal and accounting procedures do not specify that Commission funds be deposited in a Secretary of the Treasury account in Washington, but no suggestion was made by the Libyan members that they should be kept elsewhere, except that it would be necessary to establish subsidiary working balances in Libya to handle small expenditures. For withdrawals from the main (Secretary of the Treasury) account, the principle of what is in effect a double signature on instruments of payment (checks to be signed by the Chairman on the basis of a voucher signed by the Executive Director) was accepted.

The Embassy requests that any comment State-FOA wish to make on these draft rules be made available as soon as possible, inasmuch as they will probably be brought up for formal adoption in the Commission at an early date.

The Acting Country Director of USOM/L suggested to the Commission that a sub-committee to be called the Libyan-American Coordinating Committee be established as an advisory body to assist Point IV (as USOM/L and LATAS are most commonly known in Libya) in planning its program and carrying it out in the most effective way. Dr. Aneizi requested that the idea be put on paper so that it might be presented to the Council of Ministers. The Acting Country Director then announced that Point IV hopes to approach the Libyan Government soon on the reorganization of LATAS.

The matter of the Executive Director was brought up with the result previously mentioned, and the senior economic officer of the Embassy was appointed Acting Executive Director.

For the items on the agenda concerning discussion of project proposals, it was decided to substitute the appointment of a technical working committee which should submit to the Commission:

(1) A three or five year XXXX program of projects;

(2) A program of projects to be financed with the $12 million which would

DECLASSIFIED

CONFIDENTIAL
(Classification)

DECLASSIFIED

be available during the Commission's fiscal year 1955/56;

(3) A program of projects to be submitted in support of a request for additional economic aid during U. S. fiscal year 1956.

The initial submissions were not to carry full detail and documentation. After consideration by the Commission they would be referred to the Executive Director for examination and proper presentation. The projects were to be selected primarily from GOL's ten-year plan (the plan presented in Washington during the economic aid negotiations last year), but other sources of projects were not excluded.

The working committee was to consist of Mr. Pitt Hardacre, Chairman; Sir Arthur DEAN of the Libyan Public Development and Stabilization Agency; Mr. Eric SICELY, Director of Agriculture for Tripolitania; Mr. Murray PARKER, Director of Agriculture for Cyrenaica; and the senior economic officer of the Embassy. The predominantly British composition of the committee is a reflection of the fact that there are almost no native Libyans competent to take part in a technical discussion. Most major Libyan officials have a deputy, usually British, who does the technical work. A meeting of the working committee was set for February 15.

Other minor business discussed by the Commission included provision of office space, which Dr. Aneizi promised to secure in the Government building (Marina Barracks), and the employment of a secretary who could act as recording secretary for the Commission and also as the Executive Director's secretary. The Acting Country Director of USOM/L also stated that in connection with the expenditure of FOA funds (the $3 million programed for fiscal 1955) it might be necessary for USOM/L to have access to the fiscal records of the Government in order to ascertain compliance with agreements. No objection was voiced. The meeting was adjourned.

At the meeting of the working committee on February 15, the Chairman, in accordance with an agreement reached just before the meeting, appointed subcommittees for various fields of development: agriculture, forestry, and fisheries; public works (harbors, roads, etc.); water development; health and education; and banking, electric power, and miscellaneous.

The composition of the subcommittees was as follows:

Agriculture, forestry and fisheries. E. F. LANDERHOLM, Chief Agriculturist, USOM/L, Chairman; W. J. V. TAYLOR, Chief of Mission, FAO: Eric Sicely, Director of Agriculture, Tripolitania; Murray Parker, Director of Agriculture, Cyrenaica; Pierre LAVAULT, Deputy General Manager, LPDSA; and Floyd LARSON, Chief Natural Resources Division, USOM/L.

Public Works. Sir Arthur Dean, General Manager, LPDSA, Chairman; Curtis BARNES, Program Officer, USOM/L; Eric Sicely; C. M. TEULON, Director of Roads, Ministry of Communications, GOL; an engineer from the local command of the

CONFIDENTIAL

DECLASSIFIED

CONFIDENTIAL
(Classification)

DECLASSIFIED

U. S. Corps of Engineers, if he can be obtained.

Water development. Floyd Larson, Chairman; Sir Arthur Dean, W. J. V. Taylor, Eric Sicely.

Health and education. Harry L. SPENCE, Jr., Resident Representative, UNTAB: H. S. RITCHIE, Chief Educationist, USOM/L; Dr. Harry Y. SPENCE, Chief Health and Sanitation, USOM/L; and W. FULMER, Director of Public Health, Ministry of Health, GOL.

Banking, power and Miscellaneous. Pitt Hardacre, Chairman; C. S. STOKES, Acting Country Director, USOM/L; H. E. CAUSTIN, Deputy Resident Representative, UNTAB.

The subcommittees were given the same instructions as the main working committee and told to report to the main committee in ten days or so. Initial meetings were set for the agriculture and public works committees, the others being left to the discretion of the particular chairmen.

One project was brought up at the working committee meeting. Mr. Pitt Hardacre announced that $4.4 million would be requested immediately for the central bank and the agricultural bank ($1.4 million central bank, $3 million agricultural bank) since Libyan law requires (as is customary in most Middle Eastern countries) that the capital of a bank be fully subscribed before it can do business. The matter was not discussed further, but can be raised later to see whether some way can be found to reduce the amount, since $4.4 million is a sizable proportion of the funds now available and will not all be needed for the initial operations of the banks. The Embassy understands that FOA/W does not wish its contribution to be used to capitalize a bank, but desires specific confirmation or denial on this point.

The Department is requested to: 1) Comment on draft rules of procedure. 2) Expedite the recruitment of an Executive Director and 3) Comment on proposed utilization of $4.4 million for the capitalization of the two banks.

For the Ambassador:

David G. Nes
First Secretary of Embassy

CC: Benghazi

1/ Enclosures:

1. Bill for Establishment of Libyan-American Reconstruction Commission. (6 copies)
2. Standard Libyan contract with foreign nationals. (One copy only)
3. Memorandum on the Bill to establish the Libyan-American Reconstruction Commission. (6 copies)
4. Libyan-American Reconstruction Commission Rules of Procedure (draft)/

CONFIDENTIAL

DECLASSIFIED

CONFIDENTIAL
(Classification)

MEMORANDUM ON THE BILL TO ESTABLISH THE LIBYAN-AMERICAN RECONSTRUCTION COMMISSION

This Bill is submitted as a direct result of the Libyan/American negotiations for United States Government Economic Aid to Libya. In these negotiations it transpired that both Governments had views that were identical regarding the aims of such aid - that is that as the aid is to continue for twenty years it is the desire of both Governments that it should be applied in such manner as to achieve lasting economic benefits and to ensure, as far as is humanly possible, that such aid is in fact devoted to raising the standard of living of the people of Libya, and that it is not absorbed in the day today costs of Governmental administration. The aim of the American economic aid is to so improve the economic standing of Libya, so as to place Libya in the position of being able to stand on its own feet before the term of external financial and economic aid agreements end. To ensure that this end is achieved as quickly as possible both Governments recognized that purely objective principles should be applied in selecting projects for development, and that every effort should be made to achieve the aims of Article 35 of the Libyan Constitution which states that every endeavor shall be made to provide as far as possible an appropriate standard of living for every Libyan and his family.

As a consequence of the identical views of the two Governments, it was agreed to establish a joint technical Commission as being, in the circumstances, the most appropriate type of organization suited to achieve the objective results desired. The composition of the Commission of a Libyan Chairman and three other Libyans and two United States nationals will ensure that Libya's wishes as regards priority of projects is assured, but at the same time United States participation will assist very considerably in obtaining the "additional" economic aid from the Government of the United States, as that Government will have a direct interest in such aid by direct participation in formulating projects. Direct participation creates enthusiasm to help more, whereas merely handing out money, without participation in the spending, usually has the effect on the giver of making him think of ways and means of not having to hand out so much.

It is not intended to establish another large organization which will carry out projects itself; the Commission will decide the projects - find the money, and ensure that the money so provided is spent by existing Libyan Government organizations, and agencies, on the projects selected by the Commission and in accordance with the Commission's views as to how the projects can be best executed.

The establishment of this Commission is a joint effort to apply in a practical manner a decision taken by the Government of the United States of America, on the one hand, to give Libya material assistance in the economic development of Libya and, on the other hand, Libya's desire to have United States active participation in such development in such a manner that United States enthusiasm and interest is created, maintained and increased as a result

of such active participation.

Annual reports on the work of the Commission will be placed before Parliament as will your Auditor General's report on the Commission accounts, when Parliament will then be in a position to express its opinion on the activities of the Commission

21.2.1955.